

# SLND-GUARANTOR BULLETIN

#2-06

April 18, 2006

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## 1. **Special Allowance Rates**

The Department has announced the Special Allowance Rate for the quarter ending March 31, 2006 for the average of the bond equivalent rates of the 91-Day Treasury bill auctioned during that period is 4.49 percent. The average of the bond equivalent rates of the quotes for the 3-month commercial paper rates in effect for that time is 4.75 percent.

## 2. **Deficit Reduction Act of 2005 Update**

The Deficit Reduction Act of 2005, has some wide spread effects on student loans. Below is a recap of some of the changes. More information will be provided in the form of a *Common Manual* update.

Effective July 1, 2006 the origination fees will be reduced to 2%. Stafford loans first disbursed on/after July 1, 2006 will have a fixed interest rate of 6.8% and PLUS loans will have a fixed interest rate of 8.5%. Guarantors will be required to collect a 1% default fee on disbursements made on/after July 1, 2006. Graduate and professional students will be eligible for PLUS loans. Also effective July 1, 2006, spousal consolidation of loans will be eliminated. It also prohibits borrowers from entering repayment early for purposes of consolidating their loans.

## 3. **Common Manual Updates**

Batch 126 and Batch 127 *Common Manual* policy changes include the topics of:

Information To Be Provided on the Default Aversion Assistance Request Form

Glossary Updates: "Separation Date" and "Out-of-School Date"

Forbearance after the Date of Default

Taxpayer Relief Act Reporting Requirements

Required Information on Common Claim Form

Processing Closed School and False Certification Loan Discharge Applications

Processing Closed School Loan Discharge Applications



### **Policy Changes Approved**

Batch 126: Proposal 845, 848, 849

Batch 127: Proposal 850-851 & 853-854

The nation's guarantors provide the following summaries to inform schools, lenders, and servicers of the latest *Common Manual* policy changes. These changes will appear in the manual's next annual update in July 2006. These changes will also be incorporated into the *Integrated Common Manual*. The *Integrated Common Manual* is available on several guarantor websites, and it is also available on NCHELP's website at [www.NCHELP.org](http://www.NCHELP.org) in the e-library. Please carefully note the effective date of each policy change.

#### **Information To Be Provided on the Default Aversion Assistance Request Form**

The *Common Manual* is being updated with revisions to the information that needs to be included on the Default Aversion Assistance Request (DAAR) Form. Also, the figure has been modified slightly to more clearly match the fields on the DAAR Form. Two technical edits were made to correct terminology. Details of the changes are noted below.

The following fields have been changed from "If Available" to "Required:"

- Validity of the borrower's address.
- Validity of the address for each reference.

In the field of Figure 12-5 that references the servicer's six-digit servicer ID assigned by the Department, the cross-reference to Footnote #3, which states that the information is only required for loans disbursed on or after September 1, 1998, is being removed.

The field description for the borrower's last-known address was modified to clarify that the *complete* address is needed.

The field description for home telephone numbers, other numbers and validity of the telephone numbers for each reference was modified for simplification and clarity to read, "Home telephone number and other numbers."

The parenthetical statement in the field description for "Full name of the endorser, comaker, or PLUS student and identifying code" was modified for simplicity to read as follows: "(i.e., E = endorser, C = comaker, S = PLUS student)."

The validity fields for the "Endorser's or comaker's last-known complete address," "Endorser's or comaker's home telephone number," "PLUS student's last-known complete address," and "PLUS student's home telephone number" have been moved to create four new item description fields. All four validity fields are required.

The "Endorser's or comaker's home telephone number" is required only if it is available for all loans, regardless of the disbursement date.

<b>Affected Sections:</b>	Figure 12-5
<b>Effective Date:</b>	Default aversion assistance requests sent by the lender on or after July 1, 2006, unless implemented earlier by the guarantor.
<b>Basis:</b>	None.
<b>Policy Information:</b>	845/Batch 1256
<b>Guarantor Comments:</b>	None.

#### **Glossary Updates: "Separation Date" and "Out-of-School Date"**

The *Common Manual* has been updated to remove the definition of "separation date" from appendix G because the term is not currently used in the *Common Manual* text. The policy also adds the definition of "out-of-school date." "Out-of-school date" is defined as the date the student ceases to be enrolled on at least a half-time basis at an eligible school.

**Affected Sections:** appendix G  
**Effective Date:** Retroactive to the implementation of the *Common Manual*.  
**Basis:** None.  
**Policy Information:** 848/Batch 126  
**Guarantor Comments:** None.

#### **Forbearance after the Date of Default**

The *Common Manual* is revised to clarify that if the lender receives a new signed agreement to repay the debt, a lender may grant a discretionary forbearance after the date of default via a verbal or written agreement with the borrower or endorser. The revised policy also clarifies that, at the lender's discretion, the agreement to repay the debt may be included in a written forbearance agreement or may be separate.

**Affected Sections:** 11.18.G Forbearance of Defaulted Loans  
13.2.B Claim Recalls  
**Effective Date:** Discretionary forbearance granted by the lender on or after July 1, 2003, unless implemented earlier by the lender, but not before November 1, 2002, as permitted by the guarantor.  
**Basis:** §682.211(b) and (d)  
**Policy Information:** 849/Batch 126  
**Guarantor Comments:** None.

#### **Taxpayer Relief Act Reporting Requirements**

The *Common Manual* has been updated to align figure 13-1 with the revised Claim Form that is being distributed by the Default Aversion and Claims Standardization (DACS) Subcommittee of NCHELP's Program Operations Committee. A new field has been added to the Claim Form to capture the amount of unpaid origination fee and unpaid capitalized interest that are included in the principal balance on the date the claim is filed. These amounts will be reported separately in field 20b of the Claim Form. This information is required for loans first disbursed on or after September 1, 2004, to fulfill reporting requirements in Internal Revenue Service regulations.

**Affected Sections:** Figure 13-1  
**Effective Date:** Claims filed by the lender on or after January 1, 2006, for loans first disbursed on or after September 1, 2004.  
**Basis:** Final rules published under Section 221 of Internal Revenue Code and amendments to the final regulations under section 6050S of the Code relating to the information requirements for interest payments received on qualified education loans, published in the May 7, 2004, *Federal Register*, Volume 69, No. 89, pages 25489-25499.  
**Policy Information:** 850/Batch 127  
**Guarantor Comments:** None.

#### **Required Information on Common Claim Form**

Figure 13-1 is revised to add a new required field for disability claims to capture the total amount of payments made on behalf of the borrower after the date the borrower became unable to work or earn money. New fields have been added for the PLUS student's last-known complete address and the PLUS student's home telephone number. Several new fields have been added for the validity of information being requested. Also, some of the "If Available" fields have been changed to "Required" fields. Further, technical edits have been made to correct the terms "reinsured" and "unreinsured" to "insured" and "uninsured" respectively. Finally, several item descriptions were changed slightly for clarity and consistency.

**Affected Sections:** Figure 13-1  
**Effective Date:** Claims first filed by the lender on or after January 1, 2006.  
**Basis:** None.  
**Policy Information:** 851/Batch 127  
**Guarantor Comments:** None.

### **Processing Closed School and False Certification Loan Discharge Applications**

Subsections 13.8.B and 13.8.D of the *Common Manual* have been revised to align more closely similar processing requirements for closed school and false certification loan discharge applications. Language has been added to the closed school subsection that states that the lender may capitalize unpaid interest that accrues during the forbearance period and that a borrower's request for discharge may not be denied solely due to the borrower's failure to return the completed loan discharge application within 60 days. In addition, language has been added to clarify that if the lender receives a completed loan discharge application from the borrower at a later date, the lender must process the loan discharge application and, if the borrower appears to qualify for the loan discharge, file a claim with the guarantor.

Language has been added to the false certification subsection to clarify that the lender is deemed to have exercised forbearance on the loan(s) beginning on the date on which the lender suspended collection activity, if a borrower fails to submit a completed loan discharge application within 60 days of being notified of that option.

<b>Affected Sections:</b>	13.8.B Closed School 13.8.D False Certification
<b>Effective Date:</b>	Retroactive to the implementation of the <i>Common Manual</i> .
<b>Basis:</b>	§682.402(d) and (e)
<b>Policy Information:</b>	853/Batch 127
<b>Guarantor Comments:</b>	None.

### **Processing Closed School Loan Discharge Applications**

The *Common Manual* has been revised to reinsert language in subsection 13.8.B that was inadvertently omitted during the restructuring of this subsection. The reinserted language states that on the same date that the guarantor pays a claim due to a closed school loan discharge, it will refund to the borrower all borrower payments made on the loan, minus any funds received from a third-party source. For an eligible loan that was previously paid in full by or on behalf of the borrower, the guarantor will notify the lender that the loan obligation is discharged and will refund to the borrower payments made on the loan, minus any funds received from a third-party source.

If borrower payment records are unavailable or incomplete at the time the lender files the claim, the guarantor will refund to the borrower the difference between the original loan principal and the principal balance outstanding with the lender. Any additional amounts not included in the claim payment may be paid later through a supplemental claim based on proof of borrower payments or supplemental documentation provided by the lender.

<b>Affected Sections:</b>	13.8.B Closed School
<b>Effective Date:</b>	Retroactive to the implementation of the <i>Common Manual</i> .
<b>Basis:</b>	None.
<b>Policy Information:</b>	854/Batch 127
<b>Guarantor Comments:</b>	None.